

Economic Indicators

Prepared by the Department of Finance • July 2018

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov>*

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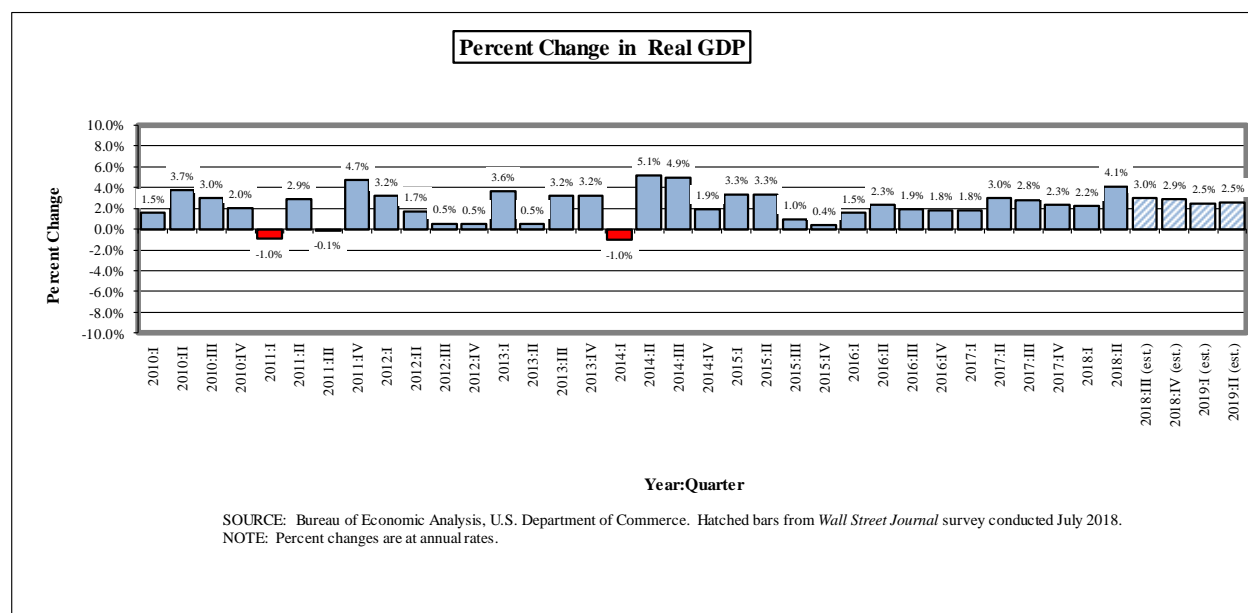
INTRODUCTION

This quarterly report provides an analysis of national, state, regional, and Montgomery County economic indicators for the month of July 2018, the second quarter of calendar year 2018, and completed fiscal year 2018. For this report, data for the second quarter cover the April to June period of the calendar year, and data for the fiscal year cover the July 2017 to June 2018 period. The data presented in this report are not seasonally adjusted to ensure comparability among the national, state, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the second quarter of this calendar year and the second quarter of calendar year 2017. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components.

NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 4.1 percent seasonally adjusted annual rate during the second quarter of 2018. That increase followed an increase of 2.2 percent during the first quarter and is the largest quarterly increase since the third quarter of 2014 (+4.9%). Based on the *Wall Street Journal* (WSJ) July survey of sixty economists, the average of the responses expects economic growth to increase 3.0 percent during the current third quarter, and 2.9 percent during the fourth quarter of this year. Based on the forecast for the next two quarters of 2018, the survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.9 percent in 2018. The results of the survey also forecast an increase of 2.3 percent in 2019 and 1.8 percent in 2020. Following its June 2018 meeting, the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System released its latest economic projections from 2018 to 2020. Real GDP is expected to increase 2.8 percent in 2018, 2.4 percent in 2019, and 2.0 percent in 2020.

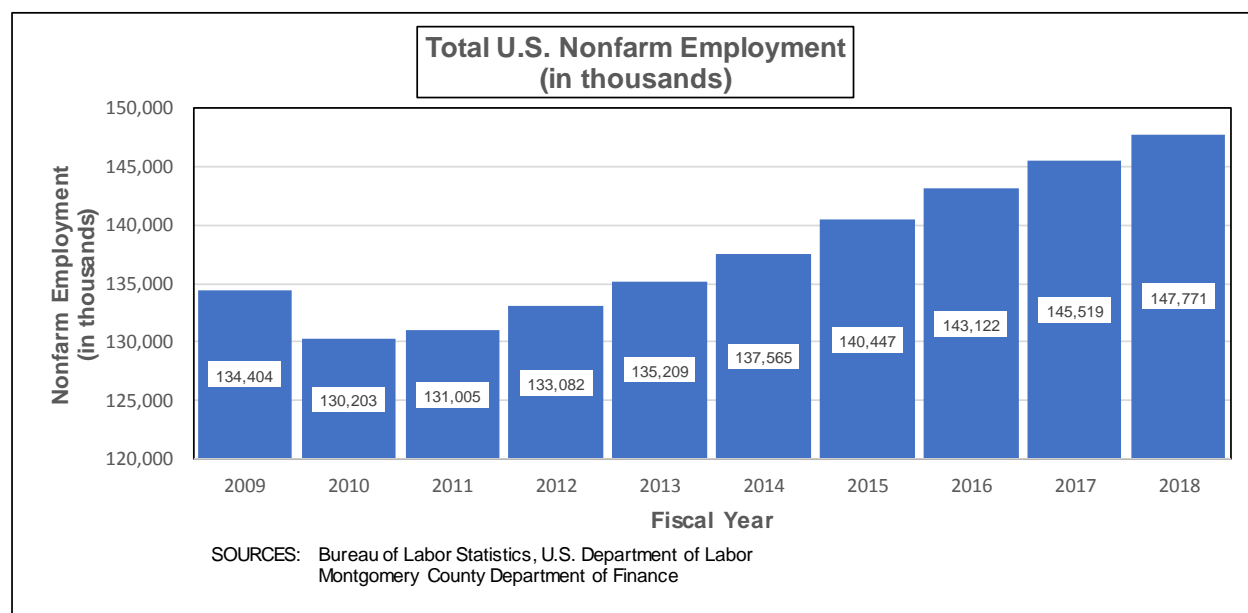
Data released by BEA for the second quarter showed that the increase in real GDP was largely attributed to an increase in personal consumption expenditures (↑4.0% - compared to an increase of only 0.5% during the first quarter). Purchases of nondurable goods increased 4.2 percent and purchases of durable goods were up 9.3 percent. Exports were up 9.3 percent while real non-residential fixed investment increased 7.3 percent which followed an 11.5 percent increase during the first quarter. Federal and state and local government spending were up 3.5 percent and 1.4 percent, respectively. However, residential real estate decreased during the second quarter with residential fixed investment decreasing 1.1 percent which followed a decrease of 3.4 percent in the first quarter but an increase of 11.1 percent during the fourth quarter of 2017.



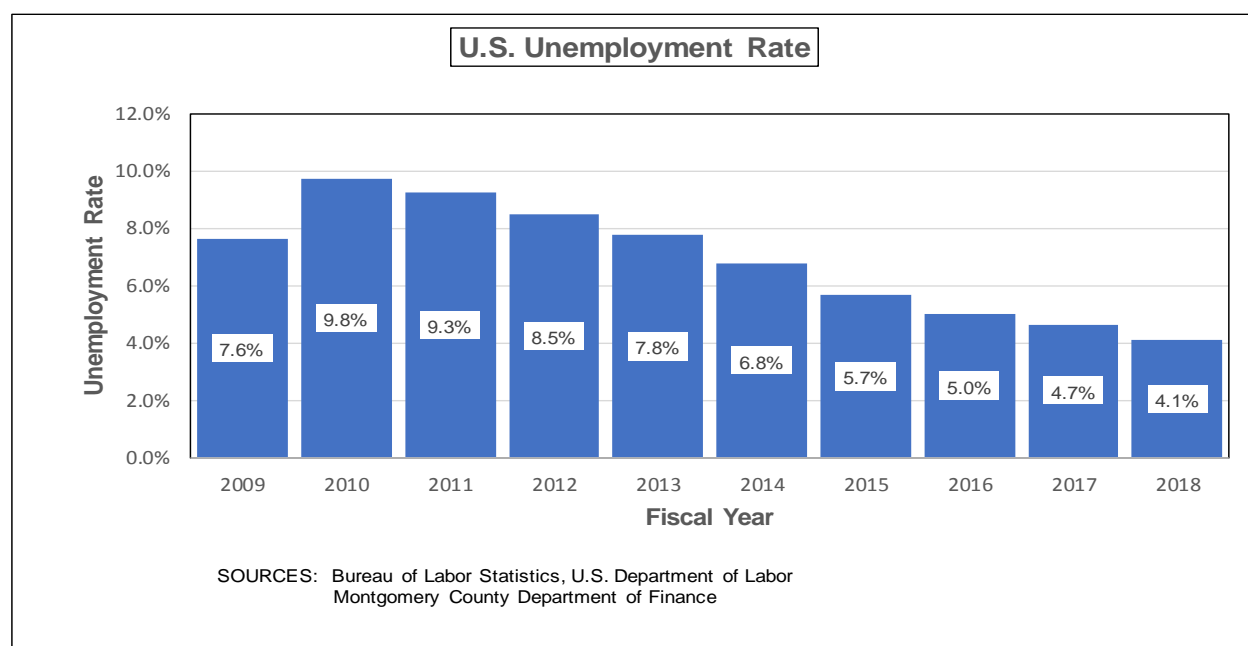
Real final sales of domestic product (real GDP less the change in private inventories) increased 5.1 percent in the second quarter compared to an increase of 1.9 percent during the first quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy. For the second quarter, the percent increase in real final sales (5.1%) was above the percent increase in real GDP (4.1%) which suggests sustained growth in real GDP through the remainder of 2018 as forecast by the July *WSJ* survey.

Sales of existing homes decreased 2.5 percent during the second quarter compared to the second quarter of 2017. Median home prices for existing homes increased 5.1 percent year-over-year during the second quarter of 2018 compared to a 6.1 percent increase during the same period in 2017. The inventory level decreased 3.6 percent during the second quarter compared to the same quarter in 2017. That decline is the thirteenth consecutive quarterly decrease in inventory levels. With home prices increasing and inventory decreasing during the second quarter, the national real estate market continues to show signs of improvement. Both the National Association of Realtors (NAR) and the Mortgage Bankers Association (MBA) forecast that sales of existing homes will increase 2.1 percent and 3.8 percent in 2018 and 2019, respectively. Thirty-year fixed rate mortgages are expected to average 5.1-5.3 percent in CY2019.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 149.3 million (not seasonally adjusted) during the second quarter of this year – an increase of nearly 2.4 million or 1.6 percent from the second quarter of 2017. Employment reached nearly 147.8 million in fiscal year 2018 – an increase of nearly 2.3 million or 1.5 percent from fiscal year 2017.



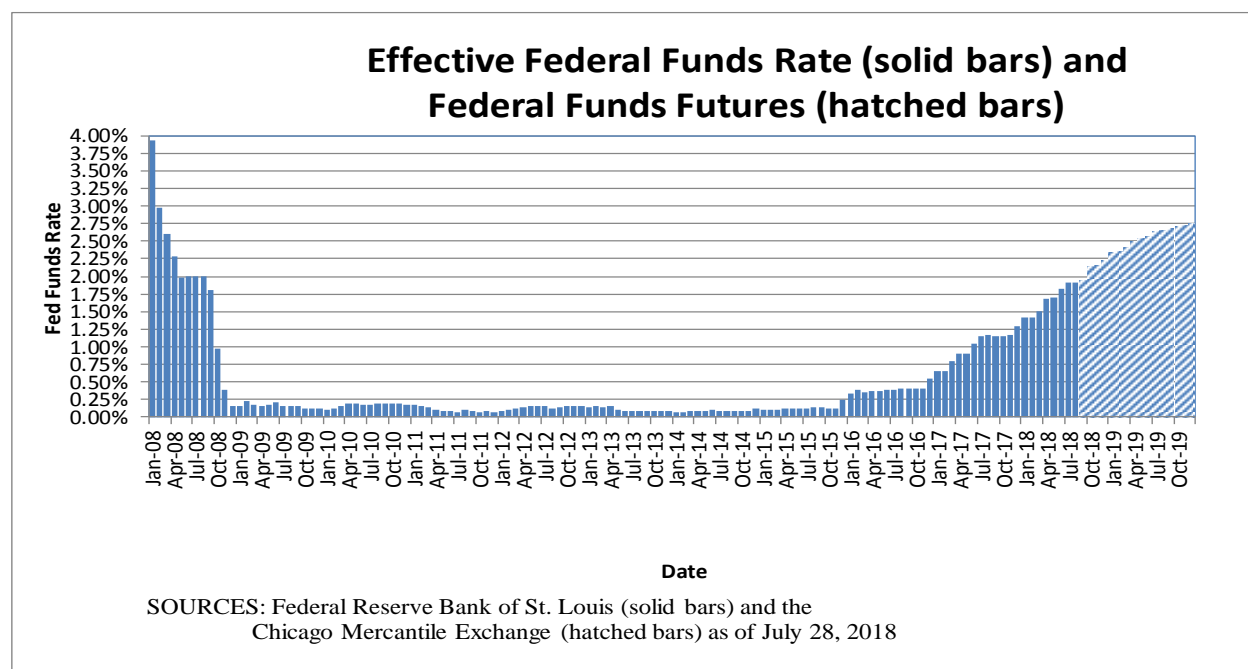
The unemployment rate during the second quarter stood at 3.8 percent (not seasonally adjusted) and was an improvement from the 4.2 percent in the second quarter of 2017. For fiscal year 2018, the unemployment rate declined 0.6 percentage points from 4.7 percent in fiscal year 2017 to 4.1 percent in fiscal year 2018. The July *WSJ* survey expects the jobless rate to be at 3.8 percent by December 2018. Both the *WSJ* July survey and the economic projections by the FOMC in June suggest that the unemployment rate will gradually decrease to 3.5-3.6 percent by the end of 2019.



Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation used by the FOMC, will increase from 1.6 percent in 2017 to 2.0 percent by 2018. The July *WSJ* survey suggests that inflation, as measured by the consumer price index (CPI), will increase from 1.8 percent in December 2017 to 2.3 percent by December 2018.

Subsequent to the July 31-August 1 meeting of the FOMC, they stated that “information received since the FOMC meeting in June indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.” Based on the review of the outlook for the economic activity and the labor market, the Committee voted to maintain the targeted federal funds rate at the current 1.75 to 2.00 percent range.

Following its June meeting, the FOMC released its latest forecast of rate increases - the “dot plot”. The median of responses indicated increasing the target federal funds rate to 2.4 percent in 2018, 3.1 percent in 2019, 3.4 percent in 2020, and 2.9 percent thereafter. While the increase in 2018 exceeds that of the federal funds futures market (2.2-2.3 percent by December 2018), it should be noted that all of the responses ranged from 2.1 percent to 2.4 percent. According to the Chicago Mercantile Exchange’s implied probability data, the next rate increase would occur in September followed by another increase in December. The July *WSJ* survey projects on average that the federal funds rate will reach 3.3-3.4 percent by December 2018 and 3.0 percent by December 2019.



After experiencing a weak performance during the first quarter of 2018, the returns in the stock market strengthened during the second quarter. The Dow-Jones Industrial Average (DJIA) was up 0.70 percent in the second quarter compared to a decrease of 2.5 percent in the first quarter; the Standard & Poor's 500 (S&P 500) increased 2.9 percent compared to a decrease of 1.2 percent in the first quarter; the NASDAQ also continued to increase in the second quarter with an increase of 6.3 percent compared to an increase of 2.3 percent during the first quarter resulting in an increase of 8.8 percent for the first half of 2018; and the Russell 2000 increased 7.4 percent in the second quarter that followed a decrease of 0.4 percent in the first quarter. Overall, three of the four indices increased during the first half of 2018 with the DJIA index experiencing a decrease during the first half of this year. Since the end of the second quarter, all four indices continued to increase in July. The DJIA increased 4.7 percent, NASDAQ increased 2.2 percent for the month, the S&P 500 increased 3.6 percent for the month, and the Russell 2000 increased 1.7 percent for the month.

STATE AND REGIONAL ECONOMY

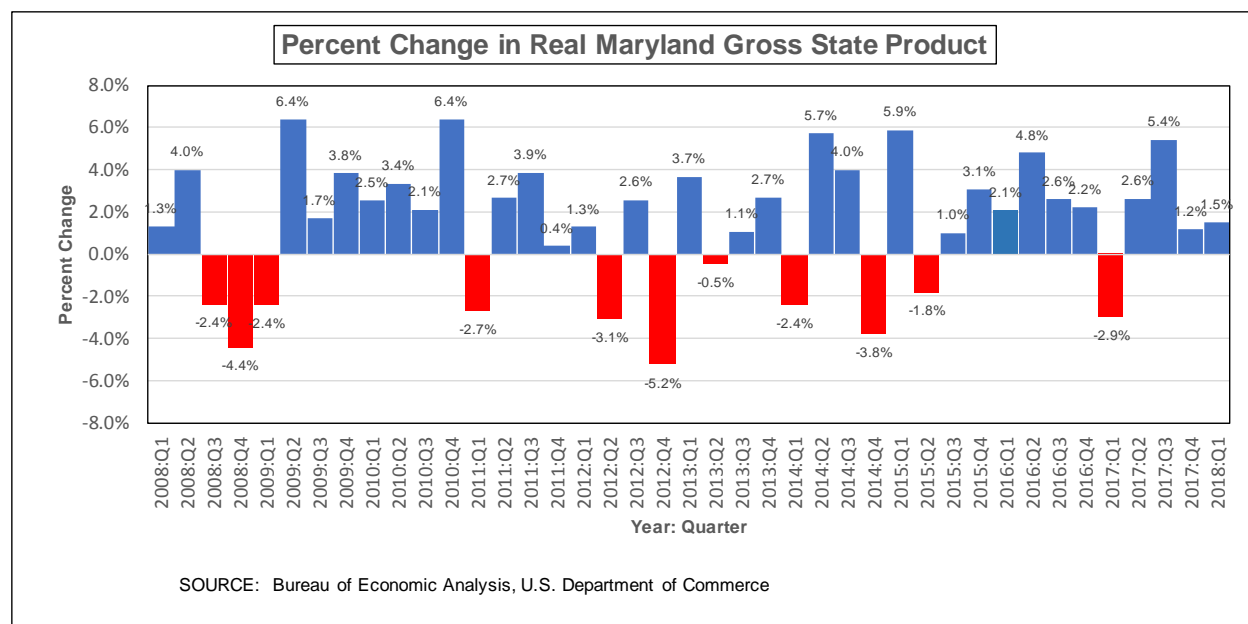
Each month, the Federal Reserve Bank of Richmond (Baltimore Branch) provides the results of the Maryland Survey of Business Activity. According to the latest survey results dated July 26, 2018 “Maryland business activity dampened in July.” According to the survey:

“Firms saw slowing growth in sales and in business expenditures. However, respondents were optimistic that conditions will improve in the coming months.

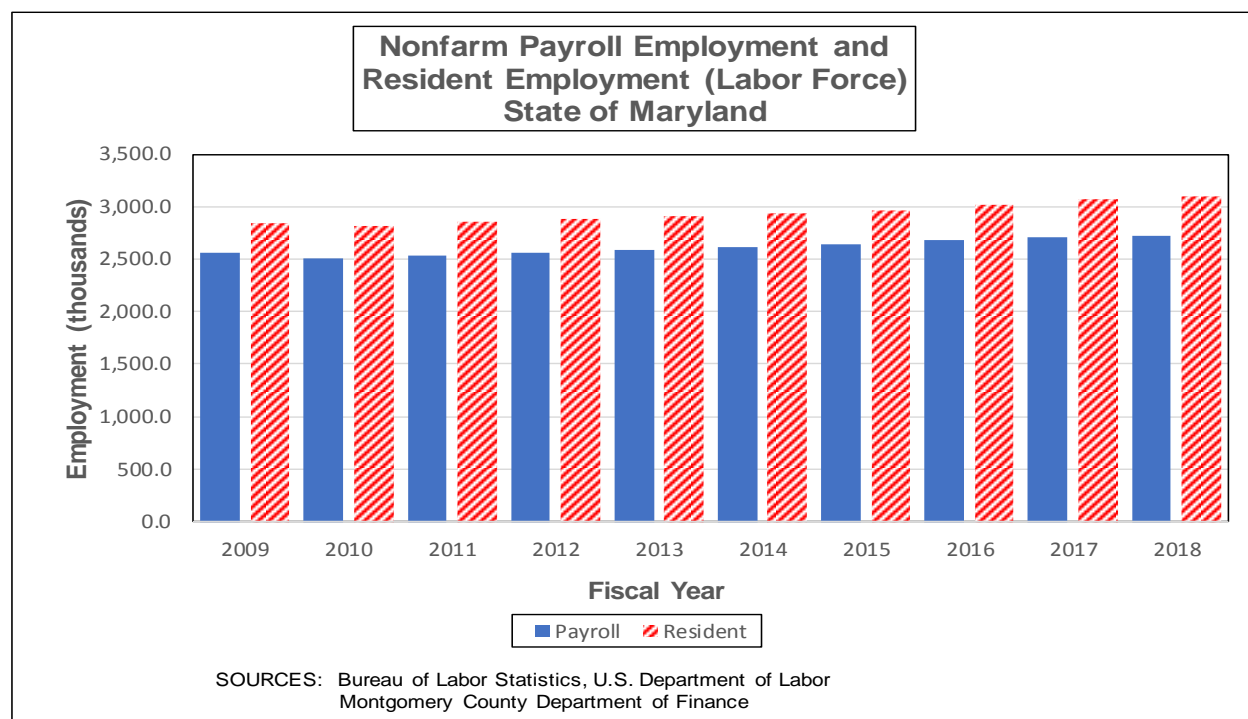
Survey results suggest slightly slower employment growth in July, and firms continued to struggle to find workers with the skills they required. They expect this difficulty to persist in the next six months, and a larger portion of firms also expect to see a decrease in the workweek than an increase.

Growth of both prices paid and prices received increased slightly among Maryland firms in July, and growth in prices paid continued to outpace growth of prices received. Respondents expect this trend to continue in the coming months.”

According to the latest data from BEA, real gross domestic product, or gross state product, for Maryland increased 1.5 percent during the first quarter of this year – an increase from the 1.2 percent during the fourth quarter of last year and an increase from the -2.9 percent during the first quarter of 2017. The increase was attributed to 5.4 percent increase in construction, a 4.7 percent increase in manufacturing, a 3.5 percent increase in educational services, a 3.4 percent increase in retail trade, and a 2.3 percent increase in health care and social assistance.

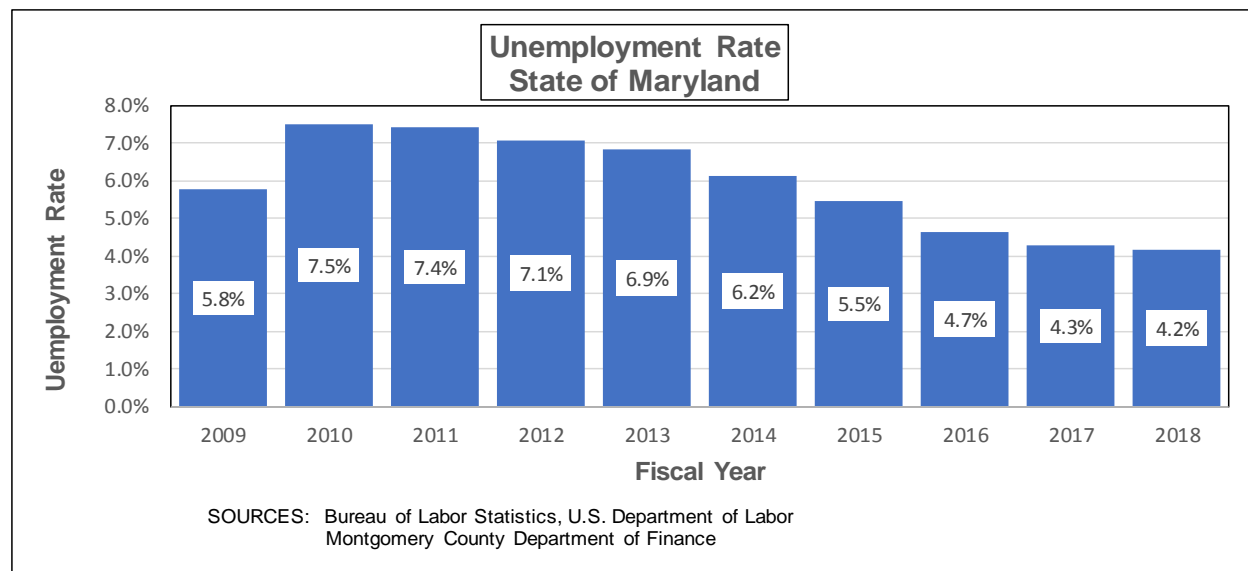


According to payroll employment data from the Bureau of Labor Statistics (BLS), U.S. Department of Labor and based on the survey of establishments, monthly payroll employment in the State of Maryland averaged 2.751 million during the second quarter of 2018 – an increase of 0.5 percent from the second quarter of 2017. In fiscal year 2018, payroll employment in Maryland reached nearly 2.728 million - an increase of 0.5 percent from fiscal year 2017.

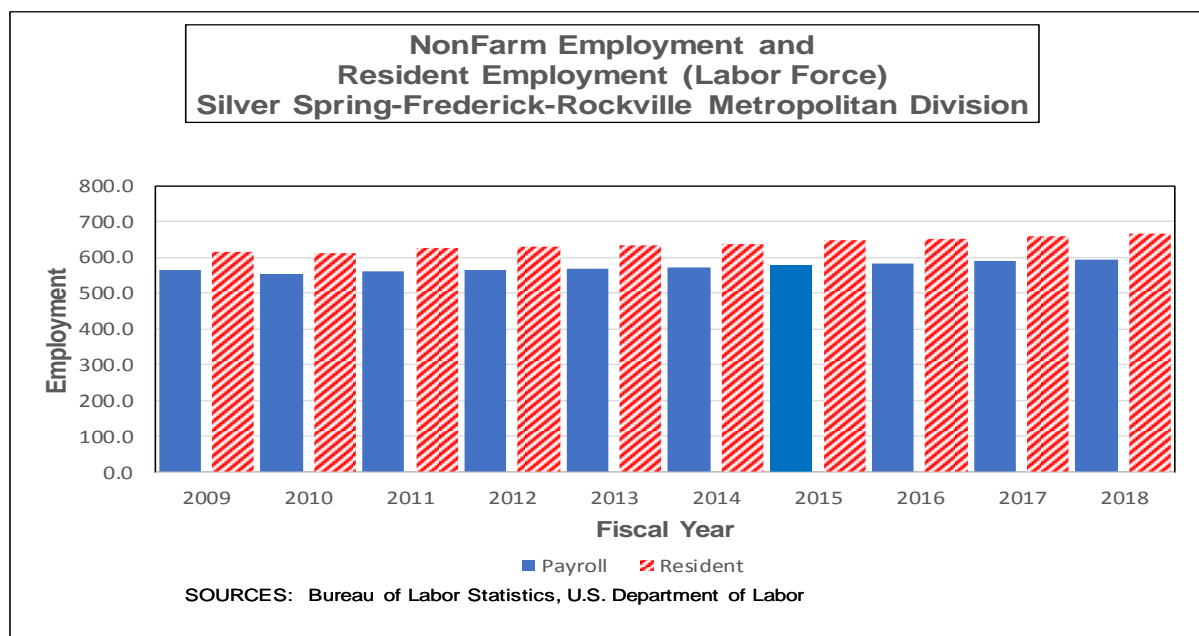


According to the labor force data, the State's resident employment increased 0.2 percent from 3.091 million during the second quarter of 2017 to 3.098 million in the second quarter of

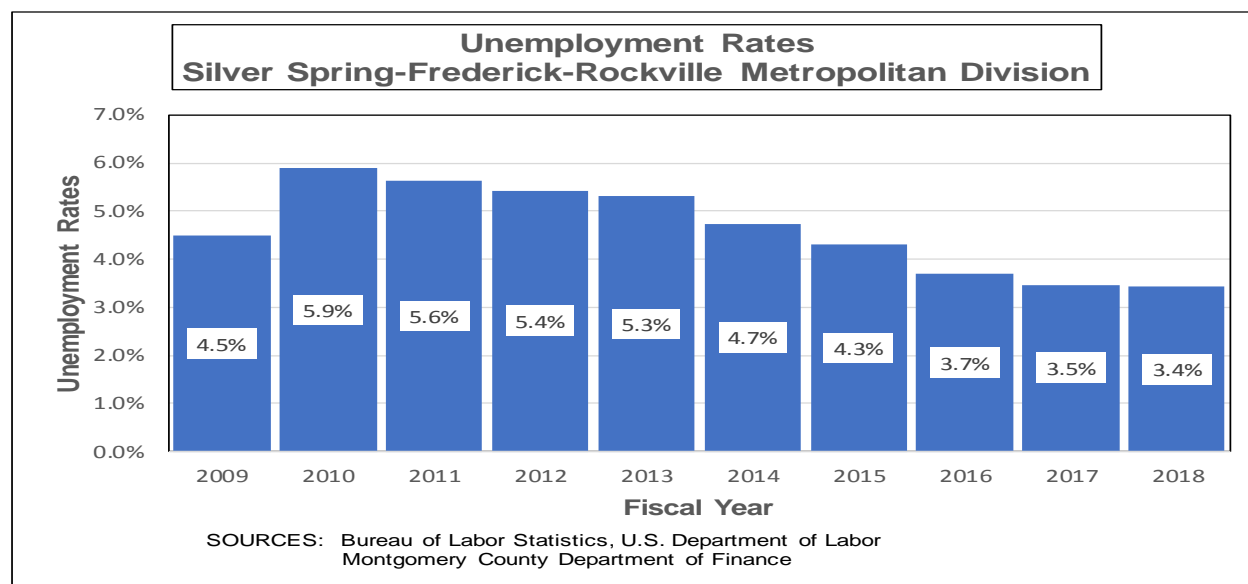
this year. The State's unemployment rate increased from 4.0 percent in the second quarter of 2016 to 4.1 percent in the second quarter of this year. On a fiscal year basis, employment increased 0.9 percent and the unemployment rate declined from 4.3 percent in FY2017 to 4.2 percent in FY2018.



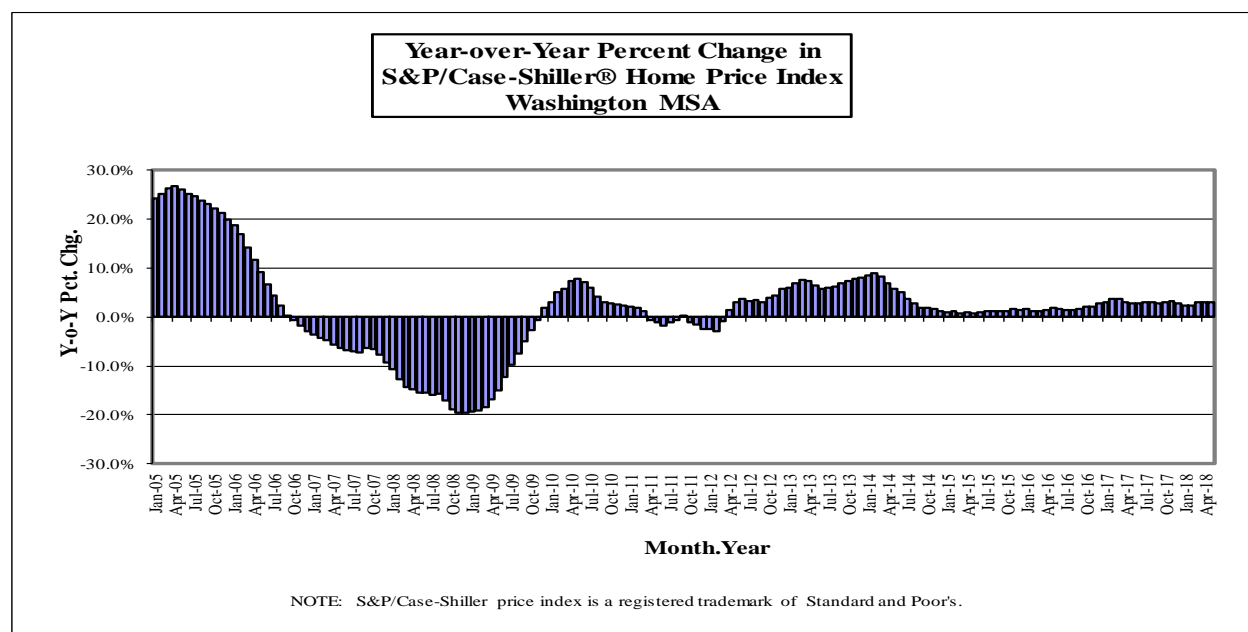
Monthly payroll employment for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division averaged 600,900 during the second quarter and was above the average employment level in the second quarter of 2017 ($\uparrow 1.0\%$). The rate of growth was also above the second quarter growth rate for the State ($\uparrow 0.5\%$). On a fiscal year basis, payroll employment increased 0.8 percent over FY2017 to 594,300. Resident employment, as measured by the household survey, averaged over 667,900 during the second quarter – an increase of 0.6 percent over the second quarter of 2017. On a fiscal year basis, resident employment was over 667,800 in FY2018 – an increase of 1.1 percent.



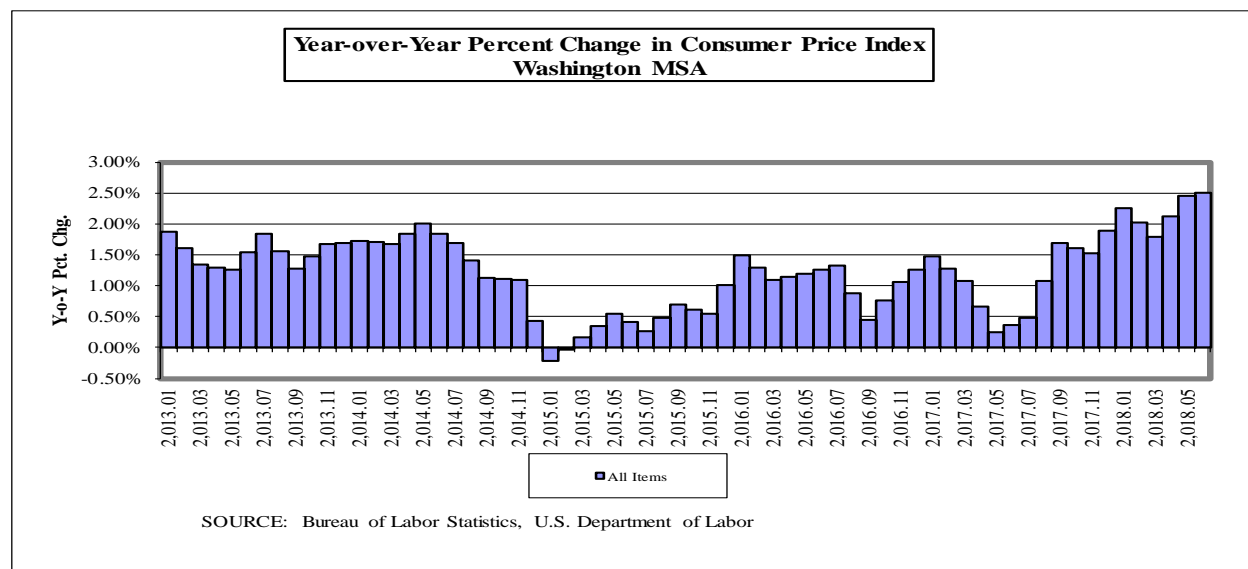
The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 3.4 percent during the second quarter of 2018 – slightly above the rate during the second quarter of 2017 (3.3%). For fiscal year 2018, the unemployment rate was 3.4 percent compared to 3.5 percent in fiscal year 2017. Both the unemployment rates for the second quarter and the fiscal year were below the State's unemployment rates.



The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2017 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 3.1 percent over the twelve-month period.



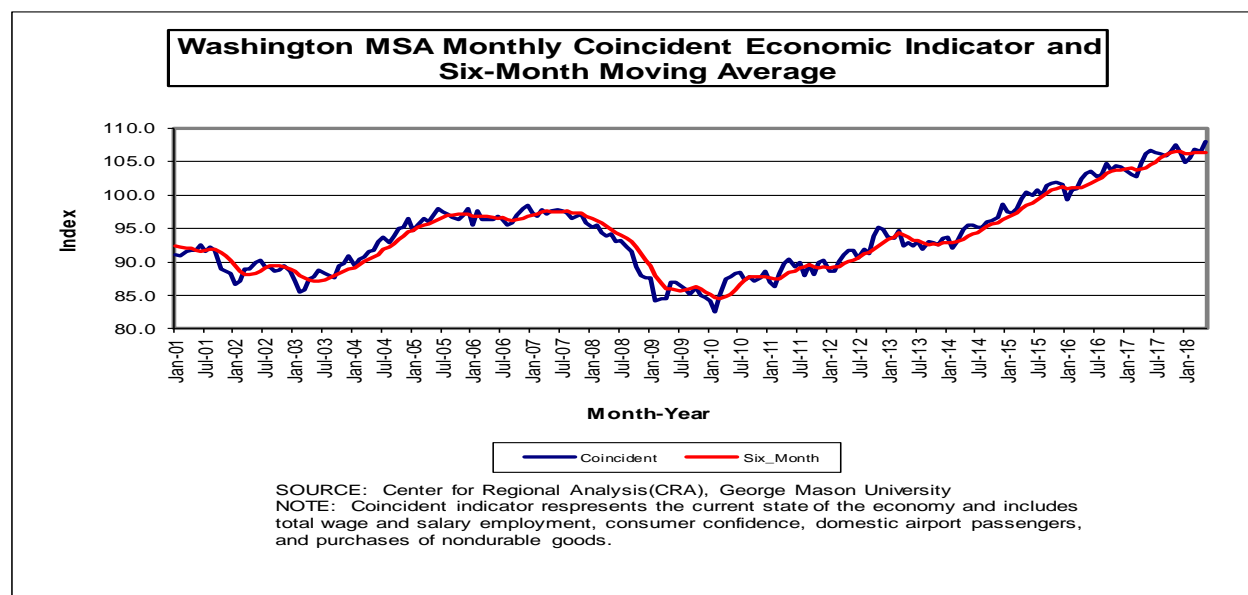
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington Metropolitan Statistical Area (MSA) increased an estimated 2.5 percent on a year-over-year basis in June of this year over June 2017. Consumer prices excluding food and energy purchases (Core CPI) were up 2.4 percent in the area (on the same year-over-year basis).



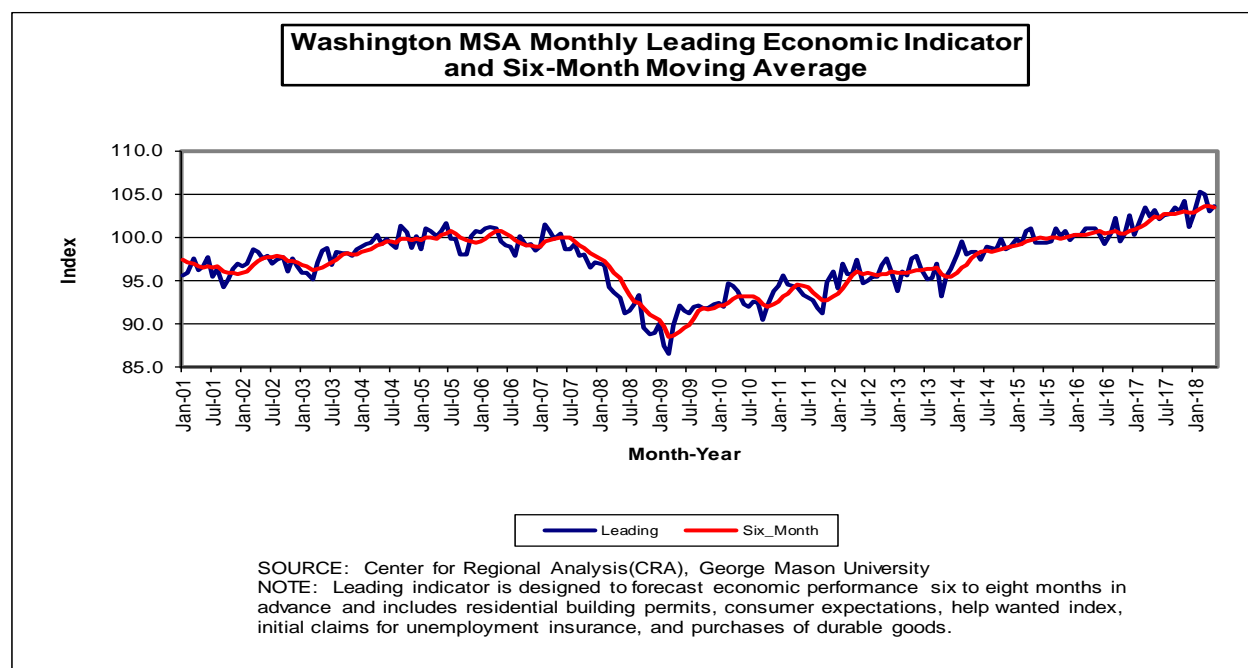
According to the Stephen S. Fuller Institute (Institute) in its July report, “the May 2018 performance of the Washington region’s Coincident and Leading Indices, while continuing their respective positive trends from 2017, appear to have stabilized at a somewhat more moderate growth rate than registered over the previous year. The economy’s current performance, as measured by the Coincident Index, while still growing has not grown as rapidly during the

second quarter as it has during the past three quarters. The Leading Index's positive trajectory points to the region's economic growth continuing into the fourth quarter of 2018."

The Washington Coincident Index, which represents the current state of the metropolitan area economy, increased 1.46 percent from April to May and three of the four components of the index increased on a month-to-month basis. Total wage and salary employment, domestic airport passenger volume, and purchases of nondurable goods increased from their April levels while consumer confidence declined ($\downarrow 11.5\%$).



According to the Institute, "the Washington Leading Index, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, registered a small increase for the second consecutive month, increasing 0.36 percent from May 2017 after increasing 0.5 percent in April. For both months, their performances were dampened by double-digit declines in residential building permits. In spite of this volatility in residential permits, the Index's positive long-term performance continues pointing to the region's expansion extending into at least the fourth quarter of 2018."

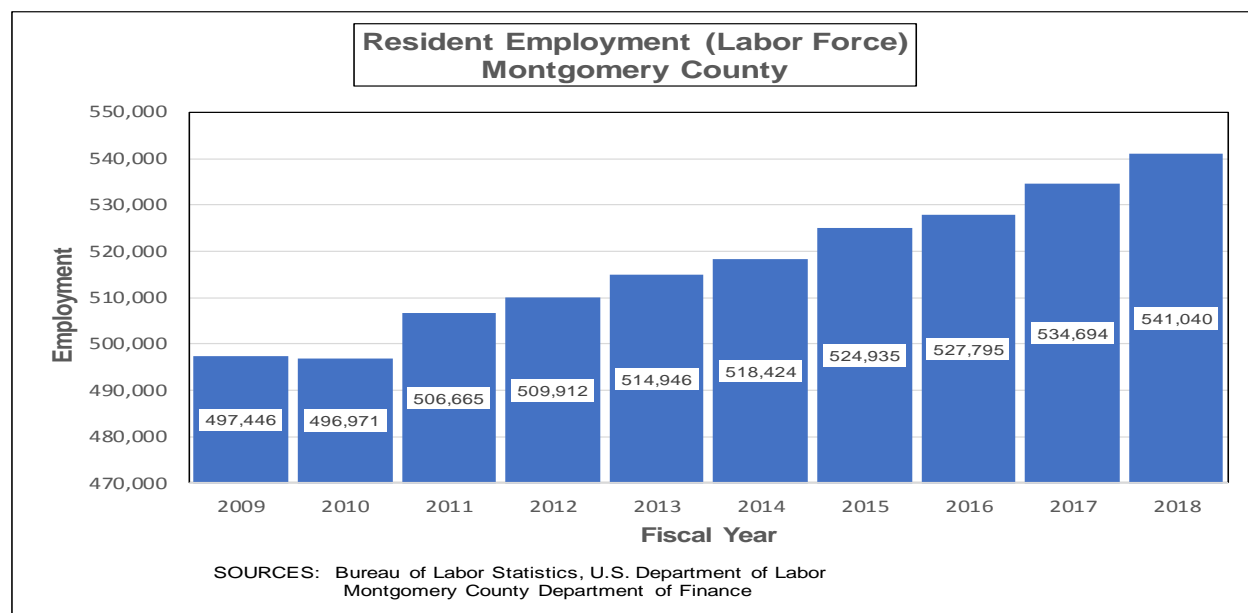


MONTGOMERY COUNTY ECONOMIC INDICATORS

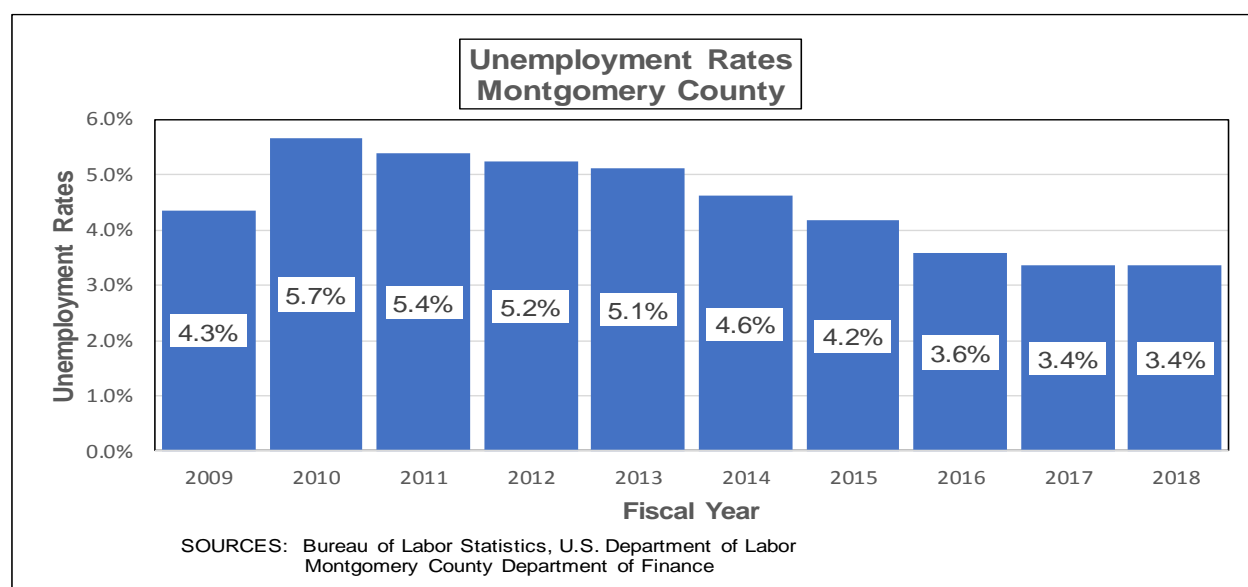
Montgomery County's economy experienced a mixed economic performance during the second quarter of this year. The reasons for a mixed performance include an increase in resident employment, a slight increase in the unemployment rate, a decrease in existing home sales, and an increase in median prices for an existing home. Residential construction experienced an increase in single-family homes ($\uparrow 12.4\%$) and a significant increase in multi-family units ($\uparrow 200.0\%$). Construction in the number of non-residential projects increased ($\uparrow 53.0\%$) and the value of added non-residential increased to nearly 110.1%.

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR), the Bureau of Labor Statistics, U.S. Department of Labor, the County's resident employment for the second quarter increased by nearly 3,800 from the second quarter of 2017 ($\uparrow 0.7\%$). On a fiscal year basis, resident employment was slightly over 541,000 in fiscal year 2018 compared to nearly 534,700 during the previous fiscal year – an increase of 1.2 percent.



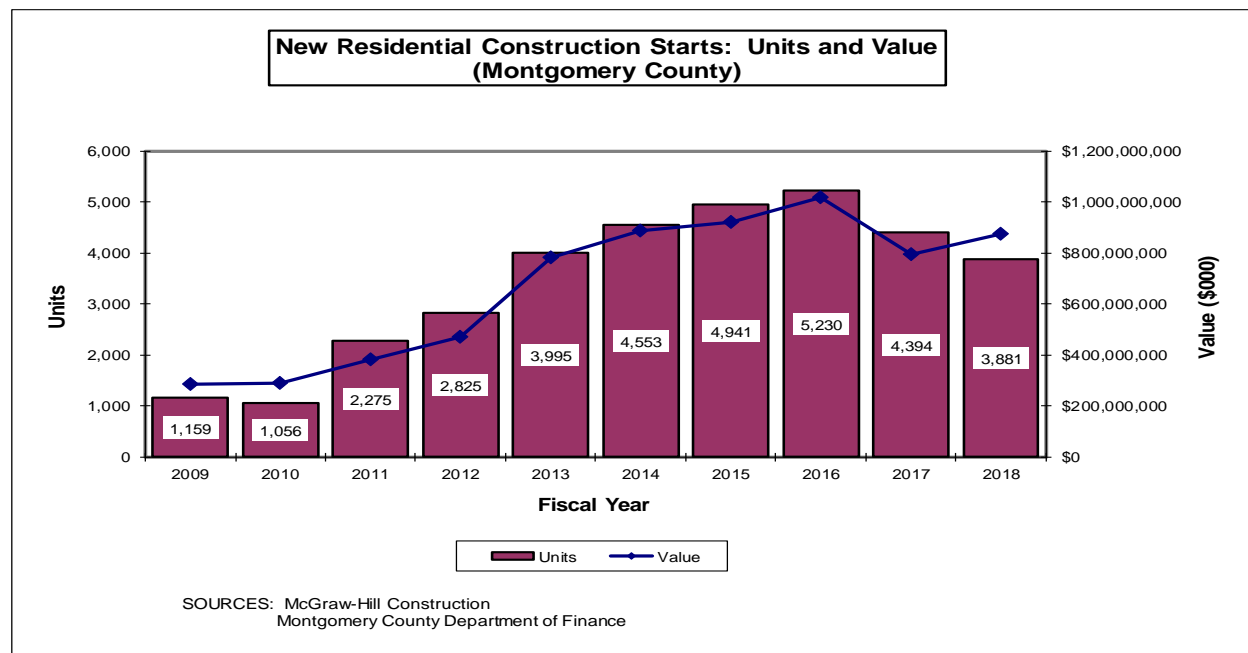
The County's average monthly unemployment rate during the second quarter was 3.3 percent and slightly above the rate during the second quarter of 2017 (3.2%). The rate was the same in fiscal year 2018 compared to fiscal year 2017 (3.4%). Throughout fiscal year 2018, the County's unemployment rate remained one of the lowest in the State.



Construction Activity

After experiencing a weak second quarter performance in 2017, construction of residential units experienced a strong performance during the second quarter of 2018. Construction of single-family homes increased 12.4 percent and construction of multi-family units increased over 200 percent. Residential construction starts added a total value of \$385.8 million during the second quarter compared to \$157.3 million during the second quarter of last year (↑145.3%).

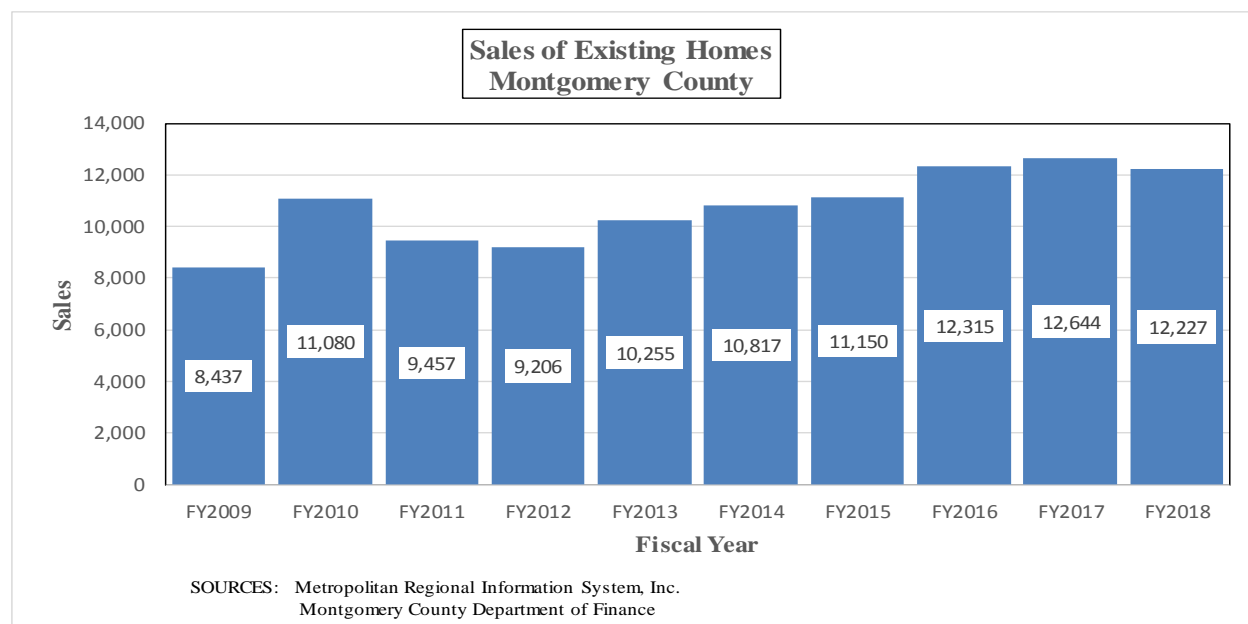
However, on a fiscal year basis, the number of new residential construction starts decreased 11.7 percent in fiscal year 2018 largely attributed to the decline in multi-family units (↓21.2%) although the total value added was \$874.2 million which was 10.1 percent above FY2017 and largely attributed to the total value added by single-family homes (↑26.6%).



During the second quarter of 2018, the number of non-residential starts (projects) increased nearly 53 percent from the second quarter of 2017. The total value increased from \$175.5 million to \$368.6 million (↑110.1%). On a fiscal year basis, the number of non-residential projects increased 88.2 percent and the total added value increased from \$1,055.4 million to \$1,154.2 million from fiscal year 2017 to fiscal year 2018 – an increase of 9.4 percent.

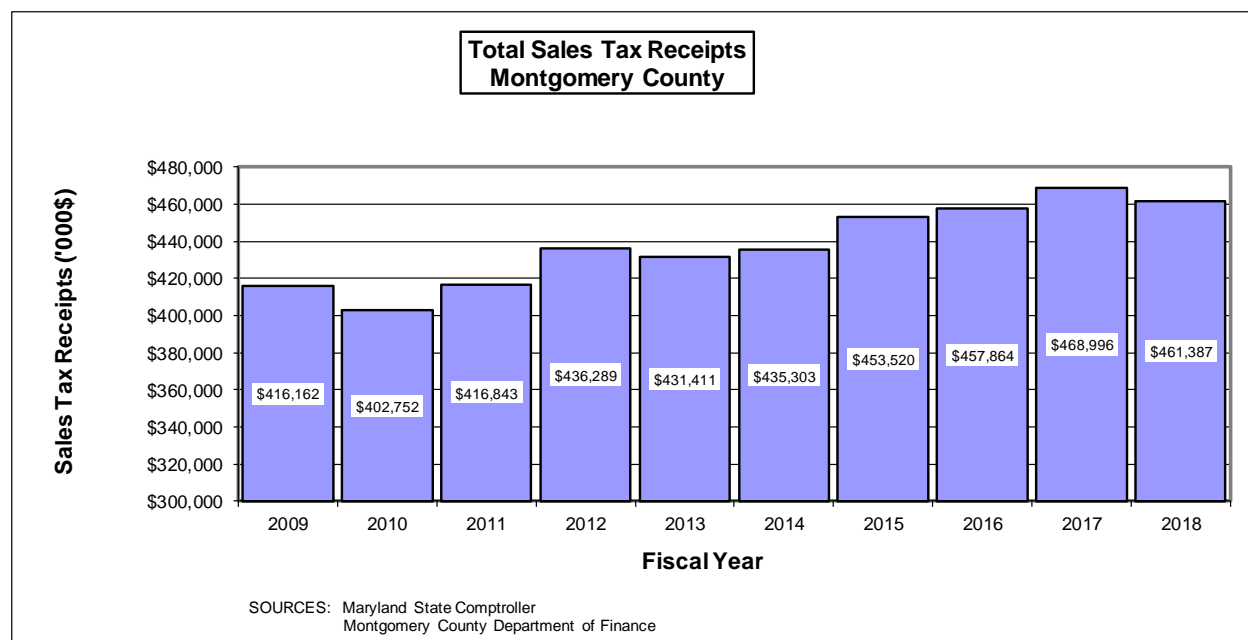
Residential Real Estate

During the second quarter of this calendar year, existing home sales decreased 0.5 percent on a year-over-year basis following a decrease of 2.5 percent during the second quarter of 2017. However, median sales prices for existing homes increased 5.8 percent during the second quarter 2018 following an increase of 3.9 percent during the second quarter of 2017. On a fiscal year basis, sales of existing homes decreased 3.3 percent but median prices increased 3.7 percent.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales decreased 1.6 percent in fiscal year 2018. In FY2018, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 2.5 percent during this period and sales of durable goods were down 0.1 percent. The decrease in nondurable goods purchases was largely attributed to the decrease in purchases of general merchandise (↓6.0%) and utilities/transportation (↓11.5%), while the decrease in purchases of durable goods was largely attributed to a decrease in furniture and appliances (↓6.6%) possibly reflecting weaker existing home sales.



CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed economic performance during the second quarter of this year compared to the same period in 2017. Employment measured by the survey of households increased 0.7 percent, but the unemployment rate at 3.3 percent was a slight increase from the second quarter of 2017. Residential construction increased for both single-family and multi-family homes. Sales of existing homes declined 0.5 percent but median prices were up 5.8 percent during the second quarter compared to the second quarter of last year.

While data for the second quarter suggests a mixed performance in the County's economy during this period, data on a fiscal year basis suggest that the economy experienced growth in the period July 2017 to June 2018 particularly in employment, the total value of new construction for both residential and non-residential properties, and median sales prices for existing homes.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual
				2018	2017	2017
Leading Indicators						
National (1)	June '18	1.4%		1.5%	1.5%	1.5%
Maryland (1)	June '18	0.9%		0.6%	2.2%	1.5%
Washington MSA (2)	May '18	0.6%		1.6%	1.6%	1.8%
Coincident Indicators						
National (1)	June '18	0.1%		2.8%	2.8%	2.8%
Maryland (1)	June '18	0.1%		2.1%	3.4%	3.6%
Washington MSA (2)	May '18	1.5%		2.2%	2.7%	2.7%
Consumer Confidence Index						
National	July '18	0.2%		7.7%	23.6%	20.7%
South Atlantic Region	July '18	-11.5%		8.2%	24.5%	21.1%
Consumer Sentiment (University of Michigan)	July '18	-0.3%		2.3%	5.0%	5.4%
Consumer Price Index						
All Items (nsa)						
National	June '18	2.9%		2.5%	2.2%	2.1%
Washington - MSA (3)	May '18	2.5%		2.1%	0.9%	1.1%
Core CPI (nsa)						
National	June '18	2.3%		2.1%	2.0%	1.8%
Washington - MSA (3)	May '18	2.3%		2.1%	0.3%	0.6%
Retail Trade						
National (sales - nsa)	June '18	6.3%		5.3%	3.9%	4.2%
Maryland (sales tax)(1)	June '18	4.2%		3.2%	1.8%	1.4%
Montgomery County (sales tax)(4)	June '18	-2.4%		-0.4%	2.2%	-0.4%
Employment						
Maryland (labor force data - nsa)	June '18	3,117,386	3,108,200	3,084,163	3,071,897	3,086,246
- Percent Change		0.3%		0.4%		1.6%
Silver Spring-Frederick-Rockville (labor force data - nsa)	June '18	673,072	669,919	667,413	663,047	665,637
- Percent Change		0.5%		0.7%		1.8%
Montgomery County (labor force data - nsa)	June '18	545,143	542,303	540,525	536,710	539,132
- Percent Change		0.5%		0.7%		1.8%
Montgomery County (QCEW)(5)	Dec. '17	474,542	472,358	469,126	463,967	463,967
- Percent Change		0.5%		1.1%		0.9%
Unemployment Rates						
Maryland (nsa)	June '18	4.5%	4.3%	4.3%	4.3%	4.1%
Silver Spring-Frederick-Rockville (nsa)	June '18	3.8%	3.6%	3.6%	3.4%	3.3%
Montgomery County (nsa)	June '18	3.8%	3.6%	3.5%	3.3%	3.3%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	June '18	\$128,207	\$50,407	\$1,067,843	\$708,009	\$1,545,328
- Percent Change		154.3%		50.8%		-13.0%
Residential (\$ thousands)	June '18	\$78,768	\$21,916	\$513,934	\$439,369	\$669,002
- Percent Change		259.4%		17.0%		-4.3%
Non-Residential (\$ thousands)	June '18	\$49,439	\$28,491	\$553,909	\$268,640	\$876,326
- Percent Change		73.5%		106.2%		-18.7%
Building Permits (Residential)						
Maryland	June '18	1,334	1,565	8,713	8,496	16,008
- Percent Change		-14.8%		2.6%		-5.4%
Montgomery County (units)	June '18	99	110	788	953	1,637
- Percent Change		-10.0%		-17.3%		-24.6%
Building Permits (Non-Residential)						
Montgomery County	June '18	170	195	1,006	942	2,024
- Percent Change		-12.8%		6.8%		-4.0%
Construction Cost Index						
Baltimore	July '18	8,773.50	8,273.40	8,580.37	7,544.60	7,841.41
		6.0%		13.7%		9.1%
Real Estate						
Case-Shiller Home Price Index*(nsa)						
	May '18	227.49	220.74	223.68	217.61	220.14
		3.1%		2.8%		3.1%
Maryland						
Sales	June '18	8,745	9,291	39,956	40,901	82,624
- Percent Change		-5.9%		-2.3%		3.2%
Average Price	June '18	\$356,494	\$346,353	\$330,535	\$320,293	\$325,781
- Percent Change		2.9%		3.2%		4.0%
Montgomery County						
Sales	June '18	1,414	1,519	6,093	6,300	12,434
- Percent Change		-6.9%		-3.3%		-0.3%
Average Price	June '18	\$575,509	\$545,893	\$538,720	\$524,221	\$520,318
- Percent Change		5.4%		2.8%		3.6%
Median Price	June '18	\$477,750	\$440,000	\$441,042	\$418,567	\$417,371
- Percent Change		8.6%		5.4%		3.6%
Months of Inventory	June '18	1.8	1.8	2.0	2.2	2.3

NOTES:

(nsa): not seasonally adjusted

(1) Philadelphia FRB

(2) Stephen Fuller Institute

(3) Bureau of Labor Statistics, U.S. Department of Labor, established a new data series starting in January 2018

(4): Data include miscellaneous and assessment collections.

(QCEW): Quarterly Census of Employment and Wages

(5) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: Year to Date through fourth quarter for 2016 and 2017, annual data for 2017